

To the Members of the California State Assembly:

I am signing Assembly Bill 664.

This bill makes numerous changes to existing law to combat those employers who manipulate their unemployment insurance contribution rate in an effort to reduce their unemployment insurance costs.

Employers who engage in schemes to illegally reduce their unemployment insurance rates cost states billions of dollars in lost revenue. This lost revenue is needed to pay unemployment insurance benefits to workers who lose their jobs through no fault of their own. Many states, including California, have unemployment insurance trust funds that are at risk of insolvency. This funding shortfall is partly attributed to the fact that federal and state laws have inadequately combated businesses that manipulate their contribution rate.

Recently enacted federal legislation requires states to enact laws for the specific purpose of combating schemes that inappropriately lower an employer's unemployment insurance contribution rate. Although I believe that few California businesses willfully engage in such schemes, it is important to ensure all businesses have a level playing field and contribute proportionately to the state's unemployment insurance system. The provisions in AB 664 not only fulfill the federal requirement, but also ensure law abiding employers do not pay higher unemployment insurance costs because a few businesses unfairly manipulate the system. By signing AB 664, California will be one of the first states to enact key legislation aimed at maintaining the integrity of the state's unemployment insurance funding structure while promoting a level playing field for all employers.

I am signing this measure because California must immediately step up the fight against employers who manipulate the unemployment insurance system. However, I am concerned that, because the passage of the federal legislation came so near the end of California's legislative session, further discussion of the provisions of this bill is warranted. Therefore, I am directing the Labor and Workforce Development Agency to work with both employer and employee representatives during the fall to ensure that AB 664 as written is strong enough to fight this problem but does not inadvertently ensnare law abiding employers. If shortcomings or other problems with the existing language are identified, I would support legislation next year to ensure they are addressed immediately.

Sincerely,

Arnold Schwarzenegger